17590
Q354434

BEST COPY AVAILABLE

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

C92-2247

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended January 31, 1992

OR

PROCESSED BY
MAR 20 1992

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____.

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Commission file number 0-15047

CIRCUIT SYSTEMS, INC.
(Exact name of registrant as specified in charter)

Illinois	36-2663010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2150 E. Lunt Ave., Elk Grove Village, Illinois	60007
(Address of principal executive offices)	(Zip Code)

(708) 439-1999
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (D) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDING DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15 (D) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes _____ No _____.

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: February 29, 1992 5,161,121.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

INDEX

		Page Number
PART I.	FINANCIAL INFORMATION	
1.	Financial Statements	
	Consolidated Condensed Balance Sheets	3
	Consolidated Condensed Statements of Earnings	4
	Consolidated Condensed Statements of Cash Flows	5
	Notes to Consolidated Condensed Financial Statements	6
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
PART II.	OTHER INFORMATION	
	Item 1. Legal Proceeding	13
	Item 6. Exhibits and Reports on Form 8-K	13

CIPCUIT SYSTEMS, INC.
AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

ASSETS	4/30/91	1/31/92
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 351,463	$ 38,069
ACCOUNTS RECEIVABLE, LESS ALLOWANCE OF $130,000 AND $300,000	5,720,714	8,833,795
INVENTORIES		
RAW MATERIAL	1,321,987	1,168,117
WORK IN PROCESS	902,006	1,225,615
FINISHED GOODS	74,501	---
	2,298,494	2,393,732
DEFERRED INCOME TAXES	125,000	54,000
PREPAID EXPENSES	90,826	98,157
TOTAL CURRENT ASSETS	8,586,497	11,417,753
INVESTMENT IN AFFILIATES (NOTE 4)	570,887	815,137
PROPERTY PLANT AND EQUIPMENT - AT COST		
BUILDING AND IMPROVEMENTS	3,347,488	3,720,600
MACHINERY AND EQUIPMENT	10,617,424	11,844,658
AUTOMOTIVE EQUIPMENT	76,162	85,762
	14,041,074	15,651,020
LESS ACCUMULATED DEPRECIATION	4,605,826	5,873,326
	9,435,248	9,777,694
LAND	1,339,703	1,434,703
	10,774,951	11,212,397
OTHER ASSETS		
NOTE RECEIVABLE SHAREHOLDER/OFFICER	500,000	500,000
DEPOSITS AND SUNDRY	177,651	143,290
GOODWILL (NET)	28,004	---
	705,655	643,290
	$ 20,637,990	$ 24,088,577

LIABILITIES AND SHAREHOLDERS

CURRENT LIABILITIES		
L/T OBLIGATION CLASSIFIED AS CUR (NOTE 6).	$ ---	$ 4,338,037
CURRENT MATURITIES OF L/T OBLIGATIONS	1,945,367	1,742,993
ACCOUNTS PAYABLE	3,209,516	4,121,098
ACCRUED LIABILITIES	939,006	1,661,045
INCOME TAXES PAYABLE	94,320	315,320
TOTAL CURRENT LIABILITIES	6,188,209	12,178,493
LONG-TERM OBLIGATIONS	9,609,864	5,823,784
DEFERRED INCOME TAXES	45,000	45,000
SHAREHOLDERS' EQUITY		
COMMON STOCK	2,115,024	2,141,274
RETAINED EARNINGS	3,044,893	4,197,526
	5,159,917	6,338,800
GUARANTEE OF ESOP DEBT	(365,000)	(297,500)
	4,794,917	6,041,300
	$ 20,637,990	$ 24,088,577

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	01/31/91 (As restated, See Note 4)	01/31/92	01/31/91 (As restated, See Note 4)	01/31/92
NET SALES	$ 8,541,467	$13,504,800	$26,418,027	$34,890,212
COST OF GOODS SOLD	7,287,203	10,801,341	22,421,195	29,039,455
GROSS PROFIT	1,254,264	2,703,459	3,996,832	5,850,757
SALES AND MARKETING EXPENSES	533,738	828,532	1,775,274	2,152,307
ADMINISTRATIVE EXPENSES	310,417	676,222	1,000,161	1,455,692
	844,155	1,504,754	2,775,435	3,607,999
OPERATING INCOME	410,109	1,198,705	1,221,397	2,242,758
OTHER (INCOME) DEDUCTIONS				
INTEREST EXPENSE	272,654	269,935	822,711	841,378
GAIN ON SALE & DISPOSITION OF EQUIP	(30,000)	(2,500)	(32,612)	(19,000)
EQUITY IN LOSS (EARNINGS) OF UNCONSOLIDATED AFFILIATE	55,034	41,459	(27,661)	(87,421)
RENTAL INCOME	(69,000)	(69,000)	(207,000)	(207,000)
SUNDRY	(10,834)	(18,046)	(54,598)	(61,832)
	217,854	221,848	500,840	466,125
EARNINGS BEFORE INCOME TAXES	192,255	976,857	720,557	1,776,633
INCOME TAXES	72,000	356,000	203,000	624,000
NET EARNINGS	$ 120,255	$ 620,857	$ 517,557	$ 1,152,633
EARNINGS PER SHARE	$.02	$.12	$.10	$.22
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	5,143,323	5,163,323	5,143,323	5,163,323

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED	
	01/31/91 (as restated, See Note 4)	01/31/92
CASH FLOWS FROM OPERATING ACTIVITIES		
NET EARNINGS	$ 517,557	$ 1,152,633
ADJUSTMENTS TO RECONCILE NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
DEPRECIATION AND AMORTIZATION	1,238,550	1,351,004
GAIN ON SALE/DISPOSITION OF PROP & EQUIP	(32,612)	(19,000)
DEFERRED INCOME TAXES	27,500	71,000
EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATE	(27,661)	(87,421)
CHANGES IN ASSETS AND LIABILITIES, (INCREASE) DECREASE		
ACCOUNTS RECEIVABLE	(605,845)	(3,113,081)
INVENTORY	(393,498)	(95,238)
PREPAID EXPENSES	19,401	(7,331)
OTHER ASSETS	52,870	34,361
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,395,997	1,880,871
TOTAL ADJUSTMENTS	1,674,702	15,165
NET CASH PROVIDED BY OPERATIONS	2,192,259	1,167,798
CASH FLOWS FROM INVESTING ACTIVITIES		
CAPITAL EXPENDITURES	(1,420,634)	(1,760,446)
PROCEEDS FROM SALE OF PROP. & EQUIP.	40,010	19,000
CASH INVESTED IN UNCONSOLIDATED AFFILIATE	(300,000)	(156,829)
NOTE RECEIVABLE SHAREHOLDER/OFFICER	(600,000)	---
NET CASH USED IN INVESTING ACTIVITIES	(2,280,624)	(1,898,275)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET BORROWINGS UNDER LINES OF CREDIT	262,993	1,486,244
PAYMENTS ON LONG-TERM OBLIGATIONS	(1,227,698)	(1,519,161)
PROCEEDS FROM LONG-TERM OBLIGATIONS	800,000	450,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(164,705)	417,083
DECREASE IN CASH	(253,070)	(313,394)
CASH AT BEGINNING OF PERIOD	420,954	351,463
CASH AT END OF PERIOD	$ 167,884	$ 38,069
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID DURING THE PERIOD FOR		
INTEREST	$ 749,738	$ 867,971
INCOME TAXES	183,678	332,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. These interim Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes included in the Company's April 30, 1991 Annual Report and Form 10-K.

2. In the opinion of the Company, the accompanying unaudited condensed consolidated financial information reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the statements contained herein.

3. These consolidated statements are presented in accordance with the requirements of Form 10-Q and consequently may not include all disclosures normally required by generally accepted accounting principles normally made in the Company's Annual Report and Form 10-K.

4. On February 22, 1991, the Company, National Material L.P. ("NMLP"), an Elk Grove Village, Illinois-based metals fabrication and distribution business, and SigmaTron, Inc. ("SigmaTron") entered into a limited partnership agreement to form SigmaTron L.P. ("SLP"). At the same time, the Company exercised its right to convert its $350,000 Subordinated Debenture into voting common stock of SigmaTron at the rate of $1.00 of debt for one share of stock. All of SigmaTron's assets were conveyed to SLP and SLP assumed all of SigmaTron's liabilities. NMLP contributed $700,000 to SLP. On April 30, 1991, SigmaTron was liquidated, and its sole asset, the limited partnership units of SLP, were distributed in kind to SigmaTron's shareholders. The Company now holds 33,707% of the SLP limited partnership units, as well as a 50% shareholding interest in S.T. One, Inc., the general partner of SLP, which holds a 1% limited partnership in SLP. As of the date of this transaction, the Company adjusted its investment and equity in earnings for SigmaTron to reflect its change in ownership interest. In addition, the Company has restated its fiscal 1991 operations to reflect its share of operations at its then ownership percentage on the equity method rather than through consolidation.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

5. On November 12, 1991, a Complaint was filed in the United States District Court Western District of Michigan Southern Division against D. S. Patel, Magan H, Patel, Thomas W. Rieck ("Rieck") and Circuit Systems, Inc. (the "Company").

D. S. Patel is Chairman of the Board of Directors and President of the Company and the owner of 2,454,953 shares of the Company's common stock. Magan H. Patel is a member of the Board of Directors, Vice President and Assistant Secretary of the Company and the owner of 532,181 shares of the Company's common stock. Rieck is a member of the Board of Directors and Secretary of the Company and President of Rieck and Crotty, P.C., the Company's legal counsel. Rieck owns no shares of the Company in his own name.

The plaintiff alleges that D. S. Patel and Magan H. Patel sold 400,034 shares of common stock of the Company owned by them to her during the period between September 22, 1989, through May 21, 1990, for approximately $1,651,000, based upon untrue statements and the failure to state material facts relating to predictions of the Company's earnings. The plaintiff also alleged that Rieck and the Company knew of the untruthfulness of the statements and of the omission of material facts relating to the Company's earnings and thus were participants in the sale of shares. The plaintiff seeks damages in the amount of the purchase price of the shares, plus costs, reasonable attorney's fees, interest from the date of sale of the shares, and treble damages under RICO.

The management denies the allegations of the Complaint and has filed a motion to dismiss. The court is awaiting plaintiff's reply.

6. At January 31, 1992, the Company was in violation of certain covenants on its long-term line of credit facility dated February 1, 1991, related to accounts receivable from SLP and certain litigation proceedings. All such violations have been waived by the bank as of January 31, 1992. The loan has been classified as current and management is currently negotiating with the bank to amend the accounts receivable covenant.

7. On December 31, 1991, the Company purchased the Antioch location for a purchase price of $500,000. The Company financed the purchase by a $450,000 mortgage on the property. The Company is the current tenant of the building.

8. On March 4, 1992, the Company acquired 19% of the common stock of American Pro Latex, Inc., a recently formed Illinois corporation ("Ampro") for $186,275 cash consideration and also agreed to extend a subordinated line of credit of up to $186,275 over as much as a 5 year period. Ampro is engaged in the business of manufacture, sales and distribution of latex examination and surgical gloves and related products from a leased facility in Monmouth, Illinois.

Certain of the executive officers of the Company also acquired a common stock interest in Ampro. In connection with the acquisition, the Company entered into a Shareholder Agreement which will prevent its ownership interest from increasing beyond 19%.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

On February 22, 1991, the Company, National Material L.P. ("NMLP"), an Elk Grove Village, Illinois-based metals fabricating and distribution business, and SigmaTron, Inc. ("SigmaTron") entered into a limited partnership agreement to form SigmaTron L.P. ("SLP"). At the same time, the Company exercised its right to convert its $350,000 Subordinated Debenture into voting common stock of SigmaTron at the rate of $1.00 of debt for one share of stock. All of SigmaTron's assets were conveyed to SLP and SLP assumed all of SigmaTron's liabilities. NMLP contributed $700,000 to SLP. On April 30, 1991, SigmaTron was liquidated, and its sole asset, the limited partnership units of SLP, were distributed in kind to SigmaTron's shareholders. The Company now holds 38.707% of the SLP limited partnership units, as well as a 50% shareholding interest in S.T.One, Inc. ("ST One"), the general partner of SLP, which holds a 1% limited partnership in SLP. As of the date of this transaction, the Company adjusted its investment and equity in earnings for SigmaTron to reflect its change in ownership interest. In addition, the Company has restated its fiscal 1991 operations to reflect its share of operations at its then ownership percentage on the equity rather than through consolidation method.

The net sales for the third quarter ended January 31, 1992, were $13,505,000, increasing by 58.1% from $8,541,000 in the prior year. The increase is the result of an expanded customer base and increased volume from existing customers. This represents the Company's efforts to maintain a continuous growth during a period of sluggish demand for printed circuit boards. The gross profit for the third quarter ended January 31, 1992, was $2,703,000 or 20.0% of net sales, compared to $1,254,000 or 14.7% of net sales for the same quarter last year. The higher gross profit is attributed to the higher volume of shipments which has resulted in increased labor and overhead efficiencies. Material costs were also lower for the quarter.

The net sales for the nine months ended January 31, 1992, were $34,890,000, increasing by 32.1%, when compared to $26,418,000 for the same period last year. The gross profit for the nine months ended January 31, 1992, was $5,851,000 or 16.8% of net sales, compared to $3,997,000 or 15.1% of net sales for the same period last year. The gross profit has increased due to lower material costs and increased plant efficiencies.

Selling, general and administrative expenses for the three and nine months ended January 31, 1992, were $1,505,000 or 11.1% of net sales and $3,608,000 or 10.3% of net sales, compared to $844,000 or 9.9% of net sales and $2,775,000 or 10.5%, respectively, for the same periods last year. The 1992 amounts are higher due to greater commission expense as a result of higher commission based revenues, the accrual of a $200,000 bonus for the president of the Company, an increase of approximately $170,000 in the provision for bad debts and a general increase in other expenses as a result of an overall growth in the business.

The other deductions-net for the three and nine months ended January 31, 1992, were $222,000 and $466,000, respectively, compared to $218,000 and $501,000, respectively, for the same periods last year. These amounts include the equity in the earnings of the unconsolidated affiliate, SLP, which, for the three and nine months ended January 31, 1992, was a loss of $41,000 and earnings of $87,000, respectively, as compared to a loss of $55,000 and earnings of $28,000, respectively, for the same periods last year. The remaining income/expense items are relatively unchanged when compared to the same periods last year.

The year to date 1992 effective income tax rate of 35.1% is higher than the 1991 rate of 28.2%, primarily due to the inclusion of the Company's equity in SLP's partnership earnings in the 1991 tax computation, a diminished effect of the utilization of the net operating loss carryforward and a decrease in deferred benefits. In 1990, the Company's equity in SigmaTron's earnings were net of taxes at the subsidiary level.

The net earnings and earnings per share for the three and nine months ended January 31, 1992, were $621,000 or $.12 and $1,153,000 or $.22, respectively, compared to $120,000 or $.02 and $518,000 or $.10, respectively, for the same periods last year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial requirements were substantially met through cash generated from operations.

For the nine months ended January 31, 1992, the increase of accounts receivable of $3,113,000, capital expenditures of $1,760,000, payments on long-term obligations of $1,519,000, the additional investment in unconsolidated affiliates of $157,000 and the increase in inventories of $95,000, were funded by operating income, the increase in accounts payable and accrued liabilities of $1,881,000, an increase in the line of credit of $1,486,000 and a loan of $450,000 to purchase the Antioch building.

At January 31, 1992, the Company was in violation of certain covenants on its long-term line of credit facility dated February 1, 1991, related to accounts receivable from SLP and certain litigation proceedings. All such violations have been waived by the bank as of January 31, 1992. The loan has been classified as current and management is currently negotiating with the bank to amend the accounts receivable covenant.

The Company has purchase commitments as of January 31, 1992, of approximately $300,000 for future deliveries of machinery and equipment and building improvements. The Company intends to finance such purchases through collateralized borrowings and existing cash flow.

On August 29, 1991, SLP executed a Loan and Security Agreement ("Agreement") with Lake Shore National Bank (the "Bank") providing for a total credit facility of $3,500,000 consisting of a revolving line of credit and a machinery and equipment term loan, at 1.75% and 2.00%, respectively, in excess of the Bank's prime rate of interest. The Company has not guaranteed any loans for SLP. However, under the terms of the Agreement the Bank may require additional equity contributions of up to $500,000 in the aggregate from the two general partners.

For the nine months ended January 31, 1992, the Company contributed $157,000, its portion of required cash calls to SLP and ST One. These cash calls are unrelated to the additional equity contributions which could be required under the Agreement.

As of January 31, 1992, the Company had accounts receivable due from SLP of approximately $295,000 and a note receivable of $175,000, bearing interest at the rate of 10%. There is a possibility that this note could be increased in the future.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSES
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

On March 4, 1992, the Company acquired 19% of the common stock of American Pro Latex, Inc., a recently formed Illinois corporation ("Ampro") for $186,275 cash consideration and also agreed to extend a subordinated line of credit of up to $186,275 over as much as a 5 year period. Ampro is engaged in the business of manufacture, sales and distribution of latex examination and surgical gloves and related products from a leased facility in Monmouth, Illinois.

Certain of the executive officers of the Company also acquired a common stock interest in Ampro. In connection with the acquisition, the Company entered into a Shareholder Agreement which will prevent its ownership interest from increasing beyond 19%.

The Company's backlog at January 31, 1992, is approximately $10,685,000 compared to $5,572,000 at January 31, 1991. Although the backlog level is significantly higher, it is considered just adequate when compared to the current monthly rate of shipments.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

PART 2 - OTHER INFORMATION

Item 1. Legal Proceeding

See Note 5 of Notes to Consolidated Condensed Financial Statements

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On November 27, 1991, the Company filed a Current Report on Form 8-K to report the Legal Proceedings described in Note 5 of Notes to Consolidated Condensed Financial Statements.

CIRCUIT SYSTEMS, INC.
AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, registrant's principal financial officer, thereunto duly authorized.

Circuit Systems, Inc.
(registrant)

Dilip S. Vyas
(Principal Financial Officer)

March 12, 1992